

FDIC State Profile

Summer 2004

South Dakota

South Dakota's employment continued to grow in the first quarter of 2004.

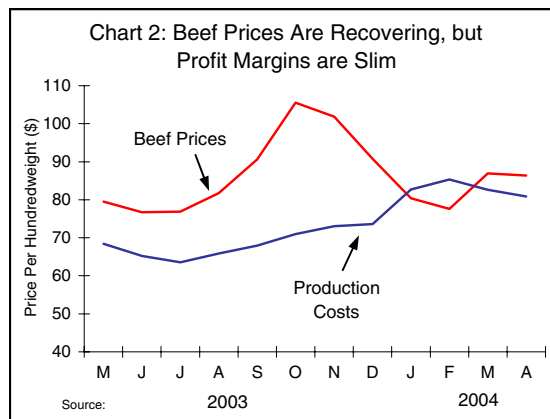
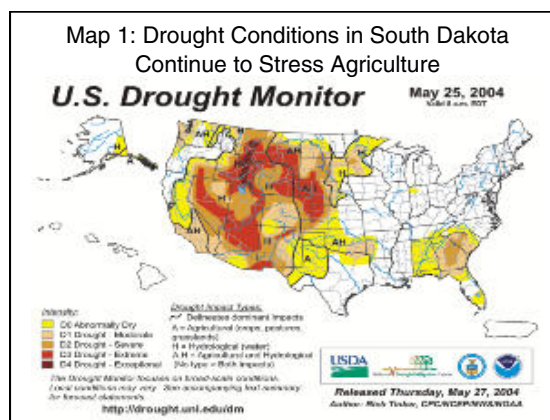
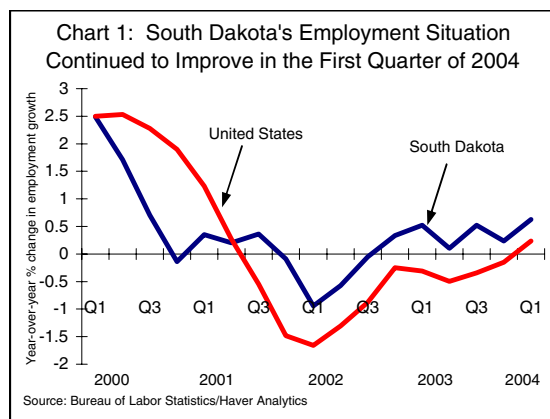
- South Dakota continued to add jobs at a relatively strong rate in the first quarter of 2004 (See Chart 1).
- The manufacturing sector posted a gain of 600 jobs in the first quarter of 2004, contributing to strong overall growth for the state.
- Unemployment declined to 3.1 percent, down from 3.8 percent in the previous quarter, and down slightly from 3.4 percent one year ago. South Dakota's unemployment rate is one of the lowest in the nation.

The drought situation improved slightly in 2003, but effects persist.

- Moderate to extreme drought conditions persist in the western part of the state (See Map 1).
- Reservoirs, streams, and farm ponds remain below normal levels, reflecting the accumulating precipitation shortages over the past four years.
- The United States Department of Agriculture's (USDA) May 16 crop progress report rates 46 percent of the state's pasture and range crop conditions as "very poor" and "poor."

Beef prices have stabilized following the "mad cow" scare.

- In South Dakota, cattle receipts account for 40 percent of the state's agricultural revenue.
- Cattle prices declined sharply in December 2003 following the USDA's announcement of the first U.S. case of bovine spongiform encephalopathy, or "mad cow" disease.
- The spot price for live cattle declined to \$73.80 per hundredweight in the first week of January 2004 as beef export markets quickly shut down. However, prices have since stabilized and are expected to average \$85.00 per hundredweight in 2004.
- Beef processors face increased production costs because of higher feed grain and fuel costs, which are keeping profit margins slim (See Chart 2).



State Profile

South Dakota's insured institutions' report continuing decreases in consumer loan Portfolio delinquencies.

- The economic recession and jobless recovery has hit the nation's workers fairly hard. As a result, personal bankruptcies are at a record pace. In South Dakota, personal bankruptcy filings increased 26 percent between year-ends 2002 and 2003. Overall however, in South Dakota, consumer credit quality indicators remain satisfactory.
- Median, 75th percentile, and aggregate measures all show that delinquency ratios increased only slightly during the worst of the economic downturn, and appear to be receding (See Chart 3).
- Overall, net charge-off rates remain low and loan loss reserve coverage remains strong.

Persistent drought conditions are negatively affecting farm banks in Kansas, Nebraska, and South Dakota.

- Four years of persistent drought throughout much of the Region's western states has reduced agricultural output and lowered river and stream flows, reservoir pool elevations, and water tables of underground aquifers substantially.
- As a result, farm banks in the most drought-stricken areas are experiencing elevated delinquencies in their loan portfolios, as reduced farm production negatively impacts farmers' debt service ability (See Chart 4).
- Moreover, in some western agricultural districts, farmland values stagnated or declined in the last two years, the first decline since the farm crisis in the mid-1980s. Declining land values could significantly weaken farm loan collateral margins.

Commercial banks in South Dakota continue to experience declining net interest margins.

- Net interest margins (NIMs) generally have been declining since 1995, excepting some recent short-term volatility coinciding with interest rate movements over the past few years (See Chart 5).
- This NIM compression has occurred despite consistent growth in loan-to-assets ratios (LTAs). LTAs are now at levels not seen since 1979, preceding the 1980s agricultural crisis. The high LTAs at that time largely resulted from excessive lending to farm borrowers during a period of speculative farmland investing.
- South Dakota's commercial banks are currently generating the lowest profit per dollar of credit exposure than at any time during the past 25 years. Regardless, asset quality remains favorable and capital protection remains strong.

Chart 3: South Dakota Institutions Report Moderate Consumer Loan Delinquencies

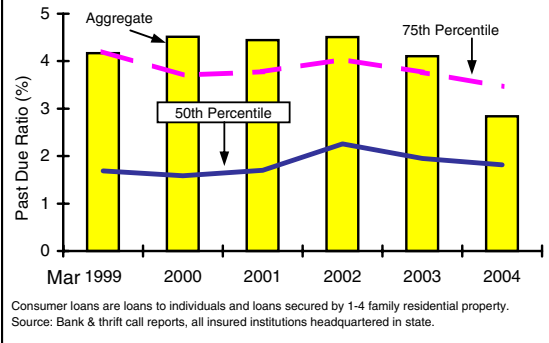


Chart 4: Farm Banks in the Most Drought-Stricken Areas Report Elevated Delinquencies

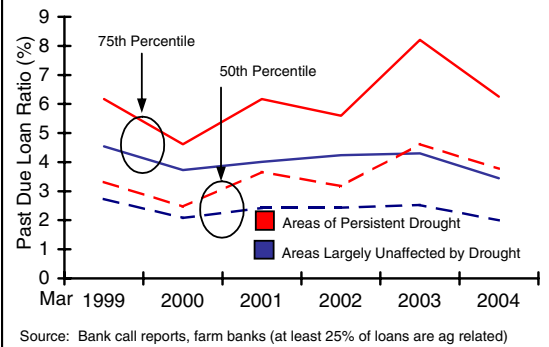
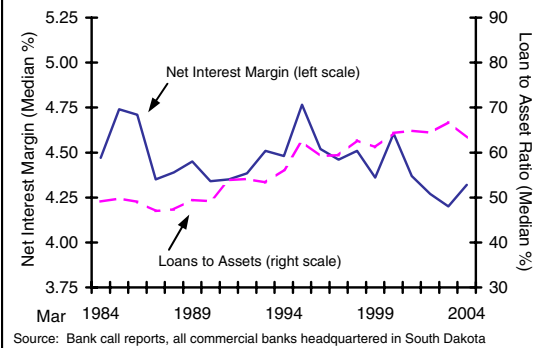


Chart 5: Net Interest Margins Continue to Decline in South Dakota's Commercial Banks



South Dakota at a Glance

General Information	Mar-04	Mar-03	Mar-02	Mar-01	Mar-01
Institutions (#)	93	97	97	97	106
Total Assets (in thousands)	420,743,375	68,695,288	64,275,193	37,547,574	34,340,530
New Institutions (# < 3 years)	0	1	1	1	1
New Institutions (# < 9 years)	4	5	6	6	7
Capital	Mar-04	Mar-03	Mar-02	Mar-01	Mar-01
Tier 1 Leverage (median)	10.85	11.29	11.00	11.07	10.76
Asset Quality	Mar-04	Mar-03	Mar-02	Mar-01	Mar-01
Past-Due and Nonaccrual (median %)	2.09%	2.37%	2.30%	2.38%	2.04%
Past-Due and Nonaccrual >= 5%	10	21	21	15	20
ALLL/Total Loans (median %)	1.79%	1.77%	1.78%	1.73%	1.96%
ALLL/Noncurrent Loans (median multiple)	1.89	2.55	2.19	2.10	2.78
Net Loan Losses/Loans (aggregate)	1.37%	4.30%	5.17%	2.91%	4.55%
Earnings	Mar-04	Mar-03	Mar-02	Mar-01	Mar-01
Unprofitable Institutions (#)	2	3	6	5	3
Percent Unprofitable	2.15%	3.09%	6.19%	5.15%	2.83%
Return on Assets (median %)	1.25	1.18	1.30	1.33	1.45
25th Percentile	0.83	0.74	0.74	0.95	0.95
Net Interest Margin (median %)	4.32%	4.20%	4.27%	4.37%	4.60%
Yield on Earning Assets (median)	5.85%	6.39%	7.09%	8.62%	8.43%
Cost of Funding Earning Assets (median)	1.59%	2.13%	2.86%	4.21%	3.80%
Provisions to Avg. Assets (median)	0.03%	0.03%	0.04%	0.09%	0.09%
Noninterest Income to Avg. Assets (median)	0.61%	0.60%	0.59%	0.64%	0.66%
Overhead to Avg. Assets (median)	3.06%	3.16%	3.09%	3.00%	2.94%
Liquidity/Sensitivity	Mar-04	Mar-03	Mar-02	Mar-01	Mar-01
Loans to Deposits (median %)	78.09%	78.31%	78.50%	77.95%	77.09%
Loans to Assets (median %)	63.97%	66.94%	65.06%	64.91%	64.49%
Brokered Deposits (# of Institutions)	23	25	26	25	23
Bro. Deps./Assets (median for above inst.)	3.58%	3.26%	1.83%	3.00%	2.93%
Noncore Funding to Assets (median)	12.98%	14.92%	12.54%	12.68%	11.67%
Core Funding to Assets (median)	71.63%	71.95%	72.34%	73.21%	74.71%
Bank Class	Mar-04	Mar-03	Mar-02	Mar-01	Mar-01
State Nonmember	58	60	60	62	65
National	18	19	19	18	23
State Member	13	14	14	13	14
S&L	0	0	0	0	0
Savings Bank	4	4	4	4	4
Stock and Mutual SB	0	0	0	0	0
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
No MSA	77	9,237,514	82.80%	2.20%	
Sioux Falls SD	14	411,176,291	15.05%	97.73%	
Rapid City SD	2	329,570	2.15%	0.08%	